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1994/08/00

EVENT SCENARIO

Event: Meeting with Minister of Electronics Hu Qili

Date: Monday, August 29, 1994

Time: 2:30 - 3:30 p.m.

Location: Ministry of Electronics, 27 Wanshou Road

Participants:
Secretary Brown
Ambassador Roy
Governor Caperton
Stein
Garten
Rothkopf
Moss
Sands
Patton

CEOs of:

Bell Atlantic
Expert Edge
AST
Bell Atlantic
Westinghouse Electric
Loral
Pitney Bowes
Tandem
Sprint
Systems Integrated

Minister Hu Qili
Tong Baoan, D/Director, Intl Cooperation Dept (JCCT
interlocutor)
Zhu Chongjin, D/Chief Economic Cooperation Div.
Others from Ministry to be determined

SCO Hendryx
Comoff Brazil
Pat Freeman (POL), notetaker

Host: Minister Hu

Objective: Discuss Work Program, trade issues, and recognize business
deals - Pitney Bowes and IBM.

The Ministry has been cooperative in discussing the work program because it anticipates more information from the Embassy and USDOC on trade shows in the US, trade missions to China, and expedition of export license applications for controlled products, especially semiconductor manufacturing equipment. Embassy and MEI have informally discussed a program to exchange information on trade events in the US and China, and cooperate in arranging these events. MEI is staffing an informal proposal by Embassy to facilitate an exchange of information about export opportunities for US firms in the provision of semiconductor manufacturing equipment. Embassy will meet with MEI on 18 August and later next week to continue these discussions.

Overview: Meeting would begin with 15 to 20 minute private meeting with Secretary followed by meeting with CEOs. Near the conclusion of the meeting, available contract signings could take place.

Deliverable: Near the conclusion of the meeting, the Secretary would observe the signing of the \$100 million TRW contract to develop scrambling devices for televisions.

Advocacy: The Secretary will want to use this opportunity to advocate on several major projects in which U.S. companies are vying for contracts in the electronics sector. These projects include Harris Corp.'s bid to develop a Broadband Radio System and Ingersoll's bids for the Heavy-Duty Generator Rotor Slotting Machining Cell and the Heavy-Duty Horizontal Spindle Milling Machining Cell. An advocacy letter supporting these projects signed by the Secretary should be handed to the Minister during the meeting. A discussion on the projects on which the Secretary should advocate during this meeting is attached as a non-paper.

Press Plan: Press pool; photo op.

Gift: TBD.

MEETING WITH MINISTER OF ELECTRONICS INDUSTRY, HU QILI

Background

Overview

Your meeting will provide an opportunity to applaud our agreement to establish an Information Technologies Subgroup under the Joint Commission on Commerce and Trade (JCCT) and to highlight its importance in encouraging greater cooperation between our two countries in the information technologies area. During your meeting, you will also have an opportunity to advocate on behalf of U.S. firms and recognize the award of a contract to a U.S. firm (see attached). U.S. firms are particularly interested in participating in China's "Golden Projects." We should raise our concerns about intellectual property rights protection and China's restrictions on foreign participation in the telecommunications services sector. Minister Hu may raise China's concerns about U.S. export controls.

Background

JCCT Information Technologies Subgroup. During its first meeting on April 13-14, 1994, the JCCT Information Technologies Subgroup reached agreement on Terms of Reference and discussed a work program which included proposals for specific trade events, exchange of information on the U.S. and Chinese information technologies markets, collaboration on developing compatible technical standards, and cooperation on China's "Golden Projects." A meeting of the Information Technologies Subgroup is tentatively scheduled for the first week in November in Beijing where the work program will be discussed in greater detail. We have been unsuccessful in our efforts to bring the Ministry of Posts and Telecommunications (MPT) into the Information Technologies Subgroup. We plan to proceed with the Subgroup's work by holding future meetings with MEI and MPT separately. If possible, we will form a separate Telecom Subgroup with MPT as co-chair within the next 6 months.

Intellectual Property Rights (IPR). On January 17, 1992, the USG signed a Memorandum of Understanding (MOU) with China on the protection of intellectual property. Since then, China has joined the Berne and Geneva Conventions. However, Chinese enforcement of these laws remains a problem. In the case of computer software, for example, piracy remains a major issue with U.S. software firms in China. Regarding semiconductors, China does not yet have an environment where IPR protection of maskworks is up to international standards.

Telecommunications. China's State Council has approved MEI's entry into the telecommunications services sector through the establishment of Jitong Corporation and its ownership stake in the Liantong Corporation. These two new telecommunications corporations are trying to provide telecommunications services outside the regulatory oversight of, and in competition with, MPT. This has resulted in significant friction between MEI and MPT.

MEI lacks experience in operating telecommunications networks and has turned to foreign companies for assistance in managing network setup, billing, etc. However, a provisional MPT regulation prohibits direct foreign investment, operation, or management of telecommunications networks in China. U.S. telecommunications firms would very much like to see these restrictions eased or eliminated, and are prepared to make substantial investments in China's

telecommunications infrastructure if such investments are permitted.

China's "Golden Projects." The Chinese Government has recently launched its "Golden Projects," in which U.S. information technologies companies such as IBM, Intel, and Tandem have taken an avid interest. These projects are: "Golden Bridge" (China's version of an information superhighway), "Golden Customs" (a foreign trade information network), and "Golden Card" (a plan to promote the use of checks and credit cards). Other sources suggest China plans to broaden the Golden Projects to include taxes. MEI has been given a key leadership role and wide decision-making responsibility in the development of these projects. Depending upon how these projects are being procured, there may be an appropriate support role for the USG on behalf of U.S. bidders.

Export Control Concerns. MEI sees U.S. export controls as a major obstacle. USDOC has not yet approved any applications, to our knowledge, for the submicron-capable equipment China needs to meet its semiconductor production goals, even though equipment to 1.0 microns is decontrolled. The same export control problems plague U.S. computer sales, another key ministry focus. Long case-by-case review of U.S. export license applications slows many computer sales. Reticence among U.S. license review agencies stems from missile non-proliferation concerns. The Chinese Government has avoided making promises that would allow U.S. agencies to comfortably approve advanced semiconductor equipment sales.

MEETING WITH MINISTER OF ELECTRONICS INDUSTRY, HU QILI
Talking Points

INTRODUCTION

- AS YOU KNOW, I AM HERE IN CHINA TO LEAD A PRESIDENTIAL BUSINESS DEVELOPMENT MISSION. THIS MISSION IS THE LARGEST U.S. COMMERCIAL DELEGATION EVER TO VISIT CHINA.
- REPRESENTED ON THIS MISSION ARE U.S. INDUSTRY LEADERS IN THE TELECOMMUNICATIONS, ENERGY, TRANSPORTATION, AND SERVICES SECTORS--AREAS WHERE U.S. TECHNOLOGY AND TECHNICAL EXPERTISE EXCEL AND CHINA'S DEVELOPMENT NEEDS ARE GREATEST.
- THESE AND OTHER FIRMS ARE EAGER TO PARTICIPATE IN CHINA'S INFRASTRUCTURE DEVELOPMENT; MANY ARE BIDDING ON KEY PROJECTS WHICH ARE LIKELY TO BE DECIDED ON IN THE NEAR FUTURE.

JCCT INFORMATION TECHNOLOGIES SUBGROUP

- WE ARE PLEASED WITH THE OUTCOME OF THE APRIL JCCT MEETING. OUR TWO SIDES HAD VERY CONSTRUCTIVE DISCUSSIONS ON COOPERATION IN THE INFORMATION TECHNOLOGIES AREA.
- I AM PLEASED THAT OUR TWO SIDES WILL SIGN TERMS OF REFERENCE FOR COOPERATION IN THE INFORMATION TECHNOLOGIES AREA. THIS PROPOSED WORK PROGRAM HAS POTENTIAL FOR GREATLY EXPANDING

COMMERCIAL RELATIONS BETWEEN OUR TWO COUNTRIES IN
INFORMATION TECHNOLOGIES.

INTELLECTUAL PROPERTY RIGHTS

- WE CANNOT STRESS ENOUGH THE IMPORTANCE OF STRONG INTELLECTUAL PROPERTY RIGHTS PROTECTION. SUCH PROTECTION BENEFITS NOT ONLY U.S. PRODUCTS AND SERVICES, BUT ENCOURAGES THE DEVELOPMENT OF CHINESE INFORMATION TECHNOLOGIES INDUSTRIES AS WELL.
- OF SPECIAL CONCERN TO THE UNITED STATES IN THE INFORMATION TECHNOLOGIES AREA IS THE PROTECTION OF COMPUTER SOFTWARE. ALTHOUGH CHINA HAS ESTABLISHED LAWS PROTECTING COMPUTER SOFTWARE, ENFORCEMENT IS A SERIOUS PROBLEM.

TELECOMMUNICATIONS

- U.S. COMPANIES ARE PREPARED TO INVEST MILLIONS OF DOLLARS IN THE DEVELOPMENT OF CHINA'S TELECOMMUNICATIONS INFRASTRUCTURE THROUGH THE DEPLOYMENT OF TECHNOLOGICALLY ADVANCED EQUIPMENT AND SOPHISTICATED NETWORK MANAGEMENT TECHNIQUES.
- HOWEVER, WE UNDERSTAND THAT CHINESE REGULATIONS PROHIBIT DIRECT FOREIGN INVESTMENT, OPERATION, OR MANAGEMENT OF TELECOMMUNICATIONS SERVICES IN CHINA. WE ENCOURAGE CHINA TO

OPEN ITS TELECOM SERVICES MARKET TO FOREIGN PARTICIPATION.

CHINA'S "GOLDEN PROJECTS"

- U.S. INFORMATION TECHNOLOGY COMPANIES ARE ALSO VERY INTERESTED IN ASSISTING THE MINISTRY OF ELECTRONICS INDUSTRY ON CHINA'S "GOLDEN PROJECTS." A NUMBER OF U.S. COMPANIES HAVE A WEALTH OF EXPERIENCE IN SIMILAR PROJECTS IN THE UNITED STATES AND ELSEWHERE IN THE WORLD, AND WE HOPE THAT YOU WILL GIVE FULL CONSIDERATION TO U.S. COMPANIES INTERESTED IN PARTICIPATING IN THESE INFRASTRUCTURE PROJECTS.

U.S. EXPORT CONTROLS (IF RAISED)

- REGARDING U.S. EXPORT CONTROLS, MANY U.S. LICENSE REVIEW AGENCIES ARE GENUINELY CONCERNED ABOUT POSSIBLE MILITARY APPLICATION OF U.S. ADVANCED TECHNOLOGY, AS WELL AS CONTINUED CHINESE MISSILE PROLIFERATION. THE U.S. LOOKS TOWARD INCREASED EFFORTS BY CHINA TO ENSURE THAT IMPORTED TECHNOLOGY IS USED FOR COMMERCIAL, NOT MILITARY PURPOSES.
- RECENT LIBERALIZATION OF U.S. EXPORT CONTROLS HAS BENEFITTED CHINA IN THE TELECOMMUNICATIONS AND COMPUTER AREAS. WE EXPECT FURTHER LIBERALIZATION MAY BE POSSIBLE WHEN CHINA ESTABLISHES A VIABLE EXPORT CONTROL REGIME AND ADHERES TO POST-COCOM, MTCR, AUSTRALIA GROUP, AND NSG NORMS. ADDITIONAL

**PROGRESS ON PRE-LICENSE/POST-SHIPMENT VERIFICATIONS WOULD ALSO
ASSIST IN ESTABLISHING TRUST.**